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TOWN OF HARPSWELL, MAINE

Annual Financial Report

For the Year Ended December 31, 2016

TOWN OF HARPSWELL, MAINE
Annual Financial Report
For the Year Ended December 31, 2016

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Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Harpswell
Harpswell, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Harpswell, Maine, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Harpswell, Maine as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Harpswell, Maine's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial

statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RHR Smith & Company

Buxton, Maine
January 27, 2017

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis
December 31, 2016

As management of the Town of Harpswell, Maine, we present this narrative to provide you with an overview and analysis of our annual financial statements for the year ended December 31, 2016. This information, in conjunction with the notes to the financial statements, can be considered when reading the Town's financial statements.

Financial Highlights

- ❖ The total net position (total assets less liabilities) of the Town of Harpswell is \$13,864,391. Total assets include the costs, net of accumulated depreciation, of the Town's capital assets which totaled \$11,127,942 at December 31, 2016. Capital assets include the Town's infrastructure assets, (i.e., roads and dry hydrants), as well as Town-owned lands, buildings and equipment, and an easement.
- ❖ The Statement of Activities shows an increase in net position of \$297,167 for the fiscal year.
- ❖ During 2016, the Town repaid \$479,334 of principal on its long-term borrowings as scheduled and incurred interest of \$57,307 on its long and short-term borrowings.
- ❖ The ending fund balance for all governmental funds is \$4,706,975.
- ❖ The ending fund balance for the General Fund is \$4,013,058, an increase of \$91,446 from the previous year. Of this balance, \$562,599 is assigned for specific purposes, and \$17,482 is nonspendable. This leaves an unassigned balance of \$3,432,977, which is sufficient for compliance with the Town's Fund Balance Policy. This Policy requires the Town to maintain a minimum unassigned fund balance of one month, 8.33%, with a target of two months, of operating expenditures, defined as the total of prior year's general fund expenditures less any expenditure made from reserve funds.
- ❖ In addition to its General Fund, the Town has funds restricted for capital projects, which include an interest-bearing dedicated fund for emergency vehicle purchases (\$507,262) and a fund for road projects (\$135,536). The Town also has funds for its special revenue activities, which include recreation programs (\$43,069) and grants (\$8,050).

Overview of Financial Statements

The Town of Harpswell's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad overview of the Town of Harpswell's finances, in a manner similar to private-sector business. Financial information is presented in two statements – *statement of net position* and *statement of activities*.

The *statement of net position* presents information about the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information about how the Town's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Both of the government-wide financial statements distinguish functions of the Town of Harpswell that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town of Harpswell include general government, public works (roads, solid waste disposal), protection and safety (law enforcement, fire protection, rescue services), health and welfare, culture and recreation, debt service and capital planning expenses.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Harpswell, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town of Harpswell maintains five individual governmental funds. Information for the General Fund and the Road Project Fund are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in the report.

The Town of Harpswell adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-38 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual statements and schedules can be found on pages 41-51 of this report.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Statement of Net Position Information

The following information is a condensed version of the Statement of Net Position.

Net Position

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Assets:		
Current & other assets	\$ 4,970,290	\$ 5,127,990
Receivable-Harpswell Coastal Academy	90,000	100,000
Capital assets	11,127,942	11,110,961
Total Assets	<u>16,188,232</u>	<u>16,338,951</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	41,028	
Liabilities:		
Long-term debt outstanding	(2,133,000)	(2,612,334)
Other liabilities	(191,216)	(98,631)
Total Liabilities	<u>(2,324,216)</u>	<u>(2,710,965)</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	(40,653)	-
Net Position:		
Net investment in capital assets	8,928,363	8,631,732
Restricted	650,848	823,215
Unrestricted	4,285,180	4,173,039
Total Net Position	<u>\$13,864,391</u>	<u>\$13,627,986</u>

The Town's Total Net Position increased by \$297,167 during 2016.

Asset changes included a decrease in cash balances of \$85,875.

Long-term debt obligations decreased in 2016 by \$479,334, as principal repayments were made as scheduled and there was no new borrowing. Other long-term liabilities in 2016 include the Town's proportionate share of the net pension liability of the Maine Public Employees Retirement System (\$66,579). Additionally, prepaid taxes and unearned revenue from Comcast increased from 2015.

64.4% of the Town's Net Position at December 31, 2016 is represented by its capital assets less any outstanding debt that was used to acquire those assets. Although the Town's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$650,848 of the 2016 Net Position (4.7%) is restricted for capital projects and grants. This includes \$507,262 for the purchase of emergency services vehicles and \$135,536 for capital road projects. Unrestricted Net Position includes amounts assigned or committed for expenditures for certain purposes in subsequent years.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Statement of Activities Information

The following information is a condensed version of the Statement of Activities.

		Governmental	
		Activities	
		<u>2016</u>	<u>2015</u>
Revenues:			
Program Revenues			
Charges for services	\$ 218,748	\$ 204,813	
Operating grants & contributions	73,377	103,693	
General Revenues			
Property and excise taxes	12,844,167	12,447,206	
Intergovernmental	145,967	134,638	
Interest earned	8,756	6,680	
Sale of West Harpswell School	-	130,000	
Other	389,480	436,432	
Total revenues	13,680,495	13,463,462	
Expenses:			
General government	1,391,842	1,344,983	
Public works	1,021,114	947,306	
Protection and safety	1,219,228	1,222,993	
Health and welfare	29,075	31,767	
Culture and recreation	391,111	357,827	
Education	7,697,700	7,622,307	
County taxes	1,254,940	1,255,204	
Overlay/abatements	108	1,953	
Interest on long-term debt	57,307	71,654	
Capital and special projects	320,903	471,680	
Total expenses	13,383,328	13,327,674	
Increase/(decrease) in net position	\$297,167	\$135,788	

Governmental Activities

Governmental activities increased the Town's net position by \$297,167 as a .42% increase in expenses was offset by a 1.6% increase in revenues. Total program revenues decreased by \$16,381 or 5.3% on a year to year basis, with the decrease occurring in operating grants and contributions (\$30,316). The decrease in grants resulted primarily from the Town obtaining two substantial Cumberland County Development Block Grants in 2015. License, permits and fees increased by \$14,410, primarily due to an increase in land use permits and in shellfish conservation fees. Recycling Center and disposal fees increased by \$20,716, primarily due to an increase in volume.

Property and excise tax revenues increased from 2015 by \$371,433 and \$25,528, respectively. The mil rate increased from \$6.24 to \$6.40. Additionally, due to improvements in collections, the Town was able to record as revenue \$100,000 of property tax revenue that was previously deferred.

While capital project expenditures decreased, the Town completed the removal of the pump house that had fallen from the pier at Mitchell Field and a capital road project.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

To aid in the understanding of the Statement of Activities, some additional explanation is provided. Please note that the format differs from that of the Statement of Revenues, Expenditures, and Changes in Fund Balances. Expenses for each activity are listed in the left-most column with revenues generated by that particular activity reported to the right. Subtracting one from the other results in a Net (Expense)/Revenue. This format provides information about the relative financial burden on the Town's taxpayers of each activity. It should be noted, however, that while these revenues may be generated by specific activities, the Town does not have dedicated revenue sources, except for recreation programs whose revenues, to the extent they exceed program costs, are retained for future programs. Accordingly, revenues from specific activities are deposited to the Town's General Fund, as are all tax payments received. From this fund, the Town makes all its expenditures.

Examples of activities which produce some level of revenue are:

<i>Public works</i>	Transfer Station fees and recycling revenues Local Road Assistance
<i>Health and welfare</i>	General Assistance state reimbursement
<i>Cultural and recreational</i>	Fees for recreation programs and bandstand donations
<i>Capital and special projects</i>	Grants for restricted projects

All other governmental revenues are reported as general revenues. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

Net Cost of Governmental Activities

The following information is a breakdown of each of the Town's major functional activities.

Net Cost of Governmental Activities

Function / Program	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
General government	\$1,391,842	\$1,344,983	\$1,391,842	\$1,344,983
Public works	1,021,114	947,306	809,874	753,219
Protection and safety	1,219,228	1,222,993	1,219,228	1,222,993
Health and welfare	29,075	31,767	21,051	23,701
Culture and recreation	391,111	357,827	340,733	303,351
Education	7,697,700	7,622,307	7,697,700	7,622,307
County taxes	1,254,940	1,255,204	1,254,940	1,255,204
Overlay/abatements	108	1,953	108	1,953
Interest on long-term debt	57,307	71,654	57,307	71,654
Capital and special projects	320,903	471,680	298,420	419,803
Total governmental activities	\$13,383,328	\$13,327,624	\$13,091,203	\$13,019,168

Total Cost of Services and Net Cost of Services increased from 2015 to 2016 by .42% and .55%, respectively.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of December 31, 2016, the Town's governmental fund balance totaled \$4,706,975.

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial performance of the Town as a whole is reflected in its governmental funds.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances available for spending. Governmental funds report the differences between their assets, liabilities and deferred inflows as fund balances. Nonspendable, committed, restricted and assigned amounts reflect that which is not available to be spent while unassigned amounts reflect amounts that are.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's General Fund balance increased from \$3,921,612 in 2015 to \$4,013,058 in 2016. The increase was attributable to an excess of revenues over expenditures of \$397,446, less the transfer of \$275,000 to the capital road fund and \$31,000 for recreation programs and capital improvements to the Trufant-Summerton Athletic Field. Additionally, Town Meeting authorized the use of up to \$506,000 of unassigned fund balance to reduce the tax commitment and \$470,000 was used. A Special Town Meeting authorized the use of \$4,000 from unassigned fund balance to resolve a property dispute at Mackerel Cove.

Revenues: 2016 property tax revenue increased by \$371,433 relative to 2015. Total appropriations increased by \$425,331 with increases in the MSAD 75 assessment of \$75,393 and in total municipal appropriations of \$379,064 (8.3%). Overlay decreased in 2016 by \$28,862.

The Town experienced an increase in non-property tax revenue sources in 2016, primarily in excise tax receipts, the Town's largest source of non-property tax revenue, which increased by \$25,528. There was also an increase in disposal fees (\$20,716), licenses and permit fees (\$14,410). The State Homestead exemption payments increased in 2016 by \$20,757 (47%), which offset a decline in State revenue sharing.

The 2016 mil rate increased to \$6.40 from \$6.24 and the property tax base expanded by approximately \$11 million. Of the 2016 commitment, 97.73% was collected prior to year-end. A healthy collection rate has been experienced for several years and, accordingly, unavailable revenue – property taxes declined by \$100,000 increasing the General Fund balance by the same amount.

Unexpended Appropriations. Notable unexpended appropriations lapsing to the General Fund in 2016 occurred in the areas of snow removal (\$31,493), employee benefits (\$23,768), road maintenance (\$13,927) and legal services (\$10,917). With respect to snow removal, purchases of both salt and sand were less than anticipated. The employee benefits budget was not fully utilized primarily due to the Town offering a higher deductible health plan option, which is less expensive to both the employee and Town. There were fewer road maintenance projects than expected. Legal costs were managed primarily due to the absence of a major legal matter or litigation.

Overlay. Of the \$51,872 raised for overlay, \$108 was used to provide abatements and the remaining \$51,764 lapsed to the General Fund balance.

Contingency. The 2016 use of contingency was limited to three instances totaling \$6,748, funding in part the repairs to three dry hydrants, in Mitchell Field operations, and general law enforcement.

Harpswell maintains a healthy General Fund balance, which when supplemented with tax anticipation note financing is used to fund expenditures until such time as property tax revenue is collected.

The annual Town Meeting, which is held in March of each year, votes on the budget as recommended by the Selectmen.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the Town's investment in capital assets, net of accumulated depreciation was \$11,127,942 and its outstanding debt \$ 2,133,000. All outstanding debt was incurred for capital purposes. \$2,115,000 of the outstanding debt funded either road projects (\$1,775,000) or the emergency services vehicles account (\$340,000). Additionally, the Town is a party to a capital lease which funded, in part, the purchase of certain media equipment. A lease balance of \$18,000 was outstanding at the end of 2016. Three annual principal payments (\$6,000) will be funded by grants to the Town by the holder of its cable franchise.

Net Investment in Capital Assets

	Capital Assets		Accumulated Depreciation		Net Investment in Capital Assets	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$2,164,271	\$2,164,271			\$2,164,271	2,164,271
Construction in progress	4,489	26,378			4,489	26,378
Other non-depreciable assets	281,900	281,900			281,900	281,900
Buildings and building improvements	4,237,097	4,230,057	(2,368,711)	(2,252,486)	1,868,386	1,977,571
Equipment, vehicles and furniture	2,419,988	2,409,463	(1,002,319)	(871,742)	1,417,669	1,537,721
Infrastructure	7,939,176	7,657,045	(2,547,949)	(2,533,925)	5,391,227	5,123,120
Total capital assets	\$17,046,921	\$16,769,114	\$(5,918,979)	\$(5,658,153)	\$11,127,942	\$11,110,961

Additions to Buildings in 2016 reflects a small replacement project of the Town office (\$7,040). 2016 additions to equipment are bleachers and scoreboards for the Truffant-Summerton field. A new batting cage will be completed in 2017 and its cost to date is included in Construction in Progress at the end of 2016.

Infrastructure assets increased and construction in progress decreased by about \$482,000 in 2016 as a major road project, which included the rehabilitation of Stover's Point, Stover's Cove and Lookout Point roads, and the erosion control plan for the north end of Long Point Road were completed. The total cost of these projects was \$378,396 (roads) and \$103,555 (erosion control) respectively. The road rehabilitation also resulted in the removal of \$199,820 and \$131,875 from cost of infrastructure and accumulated depreciation of infrastructure, respectively.

At the end of 2016, the Town was obligated under a contract for the purchase of a fire vehicle in the amount of \$415,000. This vehicle will be leased to one of the Town's volunteer Fire and Rescue organizations.

Looking forward, the Town will continue to assess the need to upgrade the infrastructure at Mitchell Field, a major asset with business development possibilities. Since 2012, portions of the pier structure at Mitchell Field have collapsed, and it is believed that certain of the remaining supports have been eroded. No decision has been made as to whether the pier should be replaced, demolished or partially rehabilitated. The cost of some of these alternatives has been estimated by an independent consultant to be in the \$4 to \$5 million range.

A second major capital project under consideration is the construction of a fire station in a central location near the Town office. While initial site planning and architectural design has not yet been completed, it is thought that the station may cost as much as \$2,000,000.

TOWN OF HARPSWELL, MAINE
Management's Discussion and Analysis, Continued

The magnitude of these two projects is such that the Town's five-year capital plan anticipates that there will be no new borrowings for the Town's other capital needs until a decision as to the disposition of the pier is reached. As a result, the Town's programs for road rehabilitation and for purchasing fire and rescue vehicles will either be funded by appropriations or delayed.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Since the 2008 economic downturn, the economy has been steadily improving. A key local indicator of the improving economy is the amount of excise tax and vehicle registration fees collected by the Tax Office. In 2016 that number was over \$1.2 million dollars, up 5.7% from the prior year and outperforming revenue projections. It is expected that this revenue source will continue to trend upward in 2017 and be used to help offset budgetary increases.

From a capital standpoint, there are several large projects under consideration that may lead to increasing tax rates in the years ahead. (1) MSAD #75, of which Harpswell is a member community, is proposing to construct a new high school in Topsham. It is the Town's current understanding that Harpswell will receive some subsidy from the State of Maine for this project, which will help take pressure off local taxpayers for funding Harpswell's portion of the project. While the project will be voted on by all district voters on March 7, 2017, the project, if approved, is not expected to be completed until 2020. (2) The Town is considering removal of the deteriorating pier at Mitchell Field. The estimated cost is still being developed, but it is likely to be in the millions of dollars and therefore bonding over a 20-year period is the most probable funding mechanism. It is expected that the March 2017 Town Meeting will be asked to consider a bond. (3) The Town wants to plan for future construction of a centralized emergency services facility on Mountain Road. While planning funds have been budgeted in 2017, the total project cost may be in the neighborhood of \$2 million dollars, however, some of those costs would be offset by a reduction in the number of emergency vehicles purchased.

With regard to operations, the 2017 budget will seek to add the services of two daytime firefighter positions and a fire administrator, representing an annual increase of about \$125,000. As the three volunteer organizations in Harpswell struggle to maintain volunteers on their rosters, the Town needs to consider providing supplemental coverage during vulnerable times, such as the daytime period, Monday through Friday.

Revenue sources are steady and in some cases out-performing conservative estimates. The fund balance policy was amended in 2015 to allow for greater flexibility in terms of its use to offset anticipated tax increases. With regard to state revenue sources, the Town does not rely heavily on state revenue sharing which has decreased substantially from 10 years ago, but the rate of decline is slowing and in 2016 the Town received \$62,008.

Real estate sales are very active, particularly waterfront sales. Over the past several years, the Town has been adding over \$10 million dollars annually to its taxable value, a trend which is expected to continue.

The tax rate may rise in 2017, however, with a flexible fund balance policy and new valuation being added to the tax rolls, the tax rate will be managed to keep any increase as minimal as possible.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Selectmen's Office at P. O. Box 39, 263 Mountain Road, Harpswell, Maine 04079-0039 or by phone at (207) 833-5771.

BASIC FINANCIAL STATEMENTS

TOWN OF HARPSWELL, MAINE
Statement of Net Position
December 31, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,556,580
Receivables:	
Taxes	264,253
Liens	52,347
Accounts	79,628
Prepaid items	17,482
Receivable from Harpswell Coastal Academy	90,000
Capital assets:	
Capital assets, not being depreciated	2,450,660
Other capital assets, net of accumulated depreciation	8,677,282
Total assets	16,188,232
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	41,028
Total deferred outflows of resources	41,028
LIABILITIES	
Accounts payable and other current liabilities	57,716
Unearned revenue	35,599
Accrued interest	9,209
Noncurrent liabilities:	
Due within one year	422,344
Due in more than one year	1,799,348
Total liabilities	2,324,216
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	40,653
Total deferred inflows of resources	40,653
NET POSITION	
Net investment in capital assets	8,928,363
Restricted for:	
Capital projects and grants	650,848
Unrestricted	4,285,180
Total net position	\$ 13,864,391

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Activities
For the year ended December 31, 2016

Functions/programs	Expenses	Program Revenues			Net (expense) revenue and changes in net position Governmental activities
		Charges for services	Operating grants and contributions	Capital grants and contributions	
Governmental activities:					
General government	\$ 1,391,842	-	-	-	(1,391,842)
Public works	1,021,114	176,216	35,024	-	(809,874)
Protection and safety	1,219,228	-	-	-	(1,219,228)
Health and welfare	29,075	-	8,024	-	(21,051)
Cultural and recreation	391,111	42,532	7,846	-	(340,733)
Education	7,697,700	-	-	-	(7,697,700)
County taxes	1,254,940	-	-	-	(1,254,940)
Overlay/abatements	108	-	-	-	(108)
Interest expense	57,307	-	-	-	(57,307)
Capital and special projects	320,903	-	22,483	-	(298,420)
Total governmental activities	13,383,328	218,748	73,377	-	(13,091,203)

General revenues:

Property taxes, levied for general purposes	11,637,419
Excise taxes	1,206,748
Interest and fees on property taxes	17,911
Intergovernmental	145,967
Interest earned	8,756
Miscellaneous	371,569
Total general revenues	13,388,370

Change in net position 297,167

Net position - beginning, Restated 13,567,224

Net position - ending \$ 13,864,391

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Balance Sheet
Governmental Funds
December 31, 2016

	General	Road Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,556,580	-	-	4,556,580
Receivables:				
Taxes	264,253	-	-	264,253
Liens	52,347	-	-	52,347
Other	79,628	-	-	79,628
Interfund receivables	-	135,536	558,381	693,917
Prepaid items	17,482	-	-	17,482
Total assets	\$ 4,970,290	135,536	558,381	5,664,207
LIABILITIES				
Accounts payable and other liabilities	57,716	-	-	57,716
Unearned revenue - taxes paid in advance	16,724	-	-	16,724
Unearned revenue - other	18,875	-	-	18,875
Interfund payables	693,917	-	-	693,917
Total liabilities	787,232	-	-	787,232
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	170,000	-	-	170,000
Total deferred inflows of resources	170,000	-	-	170,000
FUND BALANCES				
Nonspendable:				
Prepaid Insurance	17,482	-	-	17,482
Restricted:				
Capital projects and grants	-	135,536	515,312	650,848
Assigned:				
General fund	562,599	-	-	562,599
Recreation	-	-	43,069	43,069
Unassigned	3,432,977	-	-	3,432,977
Total fund balances	4,013,058	135,536	558,381	4,706,975
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,970,290	135,536	558,381	

Amounts reported for governmental activities in the Statement of Net Position (Statement 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,127,942
Deferred outflows of resources related to pensions are not financial resources and, therefore, are not reported in the funds.	41,028
Amount receivable from sale of Harpswell Coastal Academy	90,000
Unavailable revenue - property taxes is not available to pay for current period expenditures and, therefore, is unavailable in the funds.	170,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
Bonds payable and capital lease obligation	(2,133,000)
Compensated absences payable	(22,113)
Accrued interest	(9,209)
Net pension liability	(66,579)
Deferred inflows of resources related to pensions are not financial resources and, therefore, are not reported in the funds.	(40,653)

Net position of governmental activities	\$ 13,864,391
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See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2016

	General	Road Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 12,962,078	-	-	12,962,078
Intergovernmental	189,015	-	22,483	211,498
Miscellaneous	565,280	-	51,639	616,919
Total revenues	13,716,373	-	74,122	13,790,495
Expenditures:				
Current:				
General government	1,338,997	-	-	1,338,997
Public works	796,316	-	-	796,316
Protection and safety	1,120,188	-	-	1,120,188
Health and welfare	29,075	-	-	29,075
Cultural and recreation	282,745	-	89,243	371,988
Education	7,697,700	-	-	7,697,700
County taxes	1,254,940	-	-	1,254,940
Overlay/abatements	108	-	-	108
Debt service	539,384	-	-	539,384
Capital and special projects	259,474	456,128	14,983	730,585
Total expenditures	13,318,927	456,128	104,226	13,879,281
Excess (deficiency) of revenues over (under) expenditures	397,446	(456,128)	(30,104)	(88,786)
Other financing sources (uses):				
Proceeds from long-term debt	-	-	-	-
Transfers (to) from other funds	(306,000)	275,000	31,000	-
Total other financing sources (uses)	(306,000)	275,000	31,000	-
Net change in fund balances	91,446	(181,128)	896	(88,786)
Fund balances, beginning of year	3,921,612	316,664	557,485	4,795,761
Fund balances, end of year	\$ 4,013,058	135,536	558,381	4,706,975

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended December 31, 2016

Net change in fund balances - total governmental funds (from Statement 4)	\$	(88,786)
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Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital outlays	477,619	
Disposals of capital assets, net	(67,937)	
Depreciation expense	(392,701)	

Deferred outflows of resources are a consumption of net position by the government that are applicable to a future reporting period and, therefore, are not reported in the funds.

28,639

Governmental funds report as revenues payments received from installment sales. In the Statement of Activities a receivable is reported when the installment contract is entered into and is reduced by payments.

(10,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the decrease in unavailable revenue - property taxes in the funds.

(100,000)

Proceeds from long-term borrowing or capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. No new debt was issued in 2016. This represents repayments.

479,334

Deferred inflows of resources are a consumption of net position by the government that are applicable to a future reporting period and, therefore, are not reported in the funds.

1,768

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. More specifically, this represents the increase in the Town's net pension liability less the decrease in accrued absences.

(33,512)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the fund financial statements since future repayment does not require the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

2,743

Change in net position of governmental activities (see Statement 2)	\$	297,167
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See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended December 31, 2016

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 12,788,025	12,788,025	12,962,078	174,053
Intergovernmental	180,534	180,534	189,015	8,481
Miscellaneous	497,400	497,400	565,280	67,880
Total revenues	13,465,959	13,465,959	13,716,373	250,414
Expenditures:				
Current:				
General government	1,401,936	1,401,936	1,338,997	62,939
Public works	848,295	848,295	796,316	51,979
Protection and safety	1,135,882	1,136,976	1,120,188	16,788
Health and welfare	33,230	33,530	29,075	4,455
Cultural and recreation	285,504	290,029	282,745	7,284
Education	7,697,700	7,697,700	7,697,700	-
County taxes	1,254,940	1,254,940	1,254,940	-
Overlay/abatements	51,872	51,872	108	51,764
Debt service	550,000	550,000	539,384	10,616
Capital and special projects	374,600	809,476	259,474	550,002
Total expenditures	13,633,959	14,074,754	13,318,927	755,827
Excess (deficiency) of revenues over (under) expenditures	(168,000)	(608,795)	397,446	1,006,241
Other financing sources (uses):				
Transfer to / from other funds	(306,000)	(306,000)	(306,000)	-
Budgeted use of unassigned fund balance	474,000	474,000	-	(474,000)
Budgeted use of carryforward balances	-	453,771	-	(453,771)
Budgeted use of contingency	-	(12,976)	-	12,976
Total other financing sources (uses)	168,000	608,795	(306,000)	(914,795)
Net change in fund balance	-	-	91,446	91,446
Fund balance, beginning of year			3,921,612	
Fund balance, end of year			\$ 4,013,058	

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Required Supplementary Information
MainePERS - Consolidated Plan - Defined Benefit Pension Plan
Schedule of Proportionate Share
of the Net Pension Liability

LAST 10 FISCAL YEARS*

	2016	2015
<u>PLD Plan:</u>		
Proportion of the net pension liability (asset)	0.02%	0.02%
Proportionate share of the net pension liability (asset)	\$ 66,579	\$ 30,730
Covered-employee payroll	\$ 111,225	\$ 109,359
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	59.86%	28.10%
Plan fiduciary net position as a percentage of the total pension liability	88.27%	94.10%

* The amounts presented for each fiscal year were determined as of June 30, and are for those years for which information is available.

See accompanying notes to financial statements.

Schedule of Contributions

LAST 10 FISCAL YEARS*

	2016	2015
<u>PLD Plan:</u>		
Contractually required contribution	\$ 9,899	\$ 8,530
Contributions in relation to the contractually required contribution	(9,899)	(8,530)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 111,225	\$ 109,359
Contributions as a percentage of covered-employee payroll	8.90%	7.80%

* The amounts presented for each fiscal year were determined as of June 30, and are for those years for which information is available.

See accompanying notes to financial statements.

TOWN OF HARPSWELL, MAINE
Notes to Required Supplementary Information
For the Year Ended December 31, 2016

MainePERS – Consolidated Plan – Defined Benefit Pension Plan

Changes in Assumptions

There was a change in the investment rate of return assumptions this year from 7.25% to 7.125%. This change was made in the other MainePERS Programs with the 2014 valuation, but is first being recognized in the PLD Consolidated Plan in 2015. In addition to this change, the cost of living benefit increase assumption was changed from 3.12% to 2.55%. Further, those PLDs who had an IUUAL Surplus account received a refund of that account. As a result, there will be no more IUUAL surplus payments reflected beginning with the 2015 valuation. Finally, the amortization methodology for the Pooled Unfunded Actuarial Liability (PUAL) was changed from a fifteen-year open level dollar method to a method where a separate twenty-year closed period is established annually for the gain or loss in that year with these amortizations being developed as a level percentage of payroll and amortizing the existing PUAL at the time of this change, July 1, 2015, over a closed fifteen-year period beginning on this date.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements

THE REPORTING ENTITY

The Town of Harpswell, Maine, incorporated on January 25, 1758, currently operates under a Town Meeting-Selectmen form of government with a Town Administrator as the chief administrator of the Town. The Board consists of three members elected by the registered voters for three year terms.

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may or may not be financially accountable and, as such, be includable within the Town's basic financial statements. The Town (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities within the Town that should be included as part of these basic financial statements.

The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds (if any) are reported as separate columns in the fund financial statements.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, however, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, franchise fee, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

The general fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The road projects fund accounts for financial resources used in major road rehabilitation projects.

Additionally, the Town reports several nonmajor funds in the following fund categories:

Special revenue funds account for the proceeds of specific sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary or trust funds).

C. Budgetary Accounting

Each year a budget is adopted for the General Fund only, and is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The level of control (level at which expenditures may not exceed budget) is the Town meeting warrant article level.

The Town Meeting adopts the annual budget in March of that budget year and, accordingly, the previous year's Town Meeting authorizes the Board of Selectmen to spend 25% of the previous year's budget in the first three months of the current year.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Generally, all unexpended budgetary accounts lapse at the close of the fiscal year. However, portions of the General Fund fund equity can be assigned for future periods by the Selectmen. A comparison of budget to actual is presented in the financial statements on Statement 6. The difference between original budget and final budget amounts represent approved carryovers from prior years or appropriations from fund balance.

D. Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Town policy is that deposits can only be made in financial institutions insured by the F.D.I.C. or collateralized by the depository institution in the Town's name. The Town invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid and attain a reasonable market rate of return, while remaining within the guidelines approved by the Board of Selectmen.

E. Inventories of Supplies

Inventories of supplies are considered to be expenditures at the time of purchase rather than when consumed, and are not included in the general fund balance sheet.

F. Short-term Interfund Receivables/Payables

During the course of normal operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "interfund receivables or payables" on the balance sheet.

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide resources, construct assets and service debt. These transactions, if any, are reported as transfers.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Straight-line depreciation is used based on the following estimated useful lives:

Buildings and building improvements	25 to 50 years
Infrastructure	20 to 50 years
Equipment, vehicles and furniture	5 to 30 years

Capital assets, not being depreciated, includes land, construction in progress, easements and artwork associated with the former West Harpswell School property, which are not being depreciated as they are not exhaustible assets.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

H. Deferred Outflows/Inflows of Resources

In addition to assets, the governmental funds balance sheet sometimes reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

I. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. The face amount of debt is reported as other financing sources.

J. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the government imposes on itself at its highest level of decision making authority, and that remain binding unless removed in the same manner.

Assigned – resources that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – resources which have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

Committed fund balance amounts are determined by the legislative body which also would be required to modify or rescind those commitments. For assigned fund balance, management determines amounts to be carried forward for uncompleted projects previously authorized by the legislative body for specific purposes in the General Fund at year end. The Board of Selectmen votes to authorize assigned amounts.

Although not a formal policy, when both restricted and unrestricted resources are available for use, it is the Town's intent to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the Town's intent to use committed or assigned resources first, and then unassigned resources as they are needed.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. Fund Balance Policy

It is the Town's policy to maintain a minimum unassigned General Fund balance of one month, 8.33%, of operating expenditures, defined as total prior year's general fund expenditures less any expenditure made from reserve funds. The targeted balance for fiscal year-end is 2 months or 16.66%, and the maximum balance is not to exceed 25% of the operating expenditures, so long as cash flow needs are met. Any amount in excess of the targeted balance may be used to reduce the tax commitment or be appropriated as assigned or committed fund balance, or it may remain as unassigned Fund Balance. The Town's Board of Selectmen may recommend transfers to the Town that would reduce the balance below 25%, but no transfers shall be made that would reduce the balance to less than 8.33%. In the event that the unassigned fund balance drops below the minimum level, the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the targeted level over a period of no more than three (3) years.

L. Comparative Data / Restatements

Comparative total data for the prior period have been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

M. Compensated Absences

Under terms of personnel policies of the Town, vacation leave is granted in varying amounts according to length of service. No sick leave is granted at the time of employee termination. Unused vacation leave is reported in the government-wide financial statements. No expenditure is reported for this amount on the fund financial statements unless due and payable.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Participating Local District (PLD) Consolidated Plan and additions to/deductions from the PLD Consolidated Plan's fiduciary net position have been determined on the same basis as they are reported by the PLD Consolidated Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Deferred Outflows and Inflows of Resources – Statement 1

In addition to assets, the statement of financial position will at times report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has one type of item, deferred outflows related to pensions. This item is reported in the statement of net position.

In addition to liabilities, the statement of financial position will at times report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applied to a future period(s) and so will not be recognized as

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

an inflow of resources (revenue) until that time. Deferred inflows related to pensions qualify for reporting in this category. This item is reported only in the statement of net position. All items in this category are deferred and recognized as inflows of resources in the period that the amounts become available.

P. Use of Estimates

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Deposits

Custodial Credit Risk-Town Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy with respect to custodial credit risk. As of December 31, 2016, the Town reported deposits of \$4,556,580 with a bank balance of \$4,650,421. All of the Town's bank balances were collateralized by FDIC insurance and therefore, none were exposed to custodial credit risk.

PROPERTY TAX

The Town's property taxes for the current year were committed on August 8, 2016, on the assessed value listed as of April 1, 2016 for all real and personal property located in the Town. Taxes were due on September 15, 2016 and December 15, 2016; interest was charged at 6% on all unpaid taxes after those dates. Assessed values are periodically established by the Assessor at 100% of assumed market value. The Town has a certified ratio of 100%.

The following summarizes the 2016 and 2015 levy:

	<u>2016</u>	<u>2015</u>
Assessed value:		
Real property	\$1,811,106,100	1,800,372,600
Personal property	5,304,000	5,047,900
Total valuation	1,816,410,100	1,805,420,500
Tax rate (per \$1,000)	6.40	6.24
Tax commitment	11,625,025	11,265,823
Less: collections and abatements (net of supplements)	(11,360,772)	(10,933,301)
Taxes receivable at December 31	\$264,253	332,522
Due dates	½ September 15, 2016 ½ December 15, 2016	½ September 15, 2015 ½ December 15, 2015
Interest rate on delinquent taxes	6.00%	6.00%
Collection rate	97.73%	97.05%

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

PROPERTY TAX, CONTINUED

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$51,872 for the year ended December 31, 2016. Property taxes levied during the year are recorded as receivables at the time the levy is made. The receivables collected during the year and in the first sixty days following the end of the fiscal year are recorded as revenues. The remaining receivables are recorded as unavailable revenues. Tax payments received in advance of a levy are reported as unearned revenue.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Property acquired by foreclosure for nonpayment of taxes is recorded at the amount of expired tax liens plus the costs involved in foreclosure. Liens and any current taxes on the same period are not included as part of the tax acquired property account until expiration of statutory time limits or time limit extensions granted by the Town's Board of Selectmen.

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	December 31, <u>2015</u>	<u>Increase</u>	<u>Decrease</u>	December 31, <u>2016</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,164,271	-	-	2,164,271
Construction in progress	26,378	460,062	481,951	4,489
Other non-depreciable assets	281,900	-	-	281,900
Total capital assets not being depreciated	2,472,549	460,062	481,951	2,450,660
Capital assets, being depreciated:				
Buildings and improvements	4,230,057	7,040	-	4,237,097
Equipment, vehicles and furniture	2,409,463	10,525	-	2,419,988
Infrastructure	7,657,045	481,951	199,820	7,939,176
Total capital assets being depreciated	14,296,565	499,516	199,820	14,596,261
Less accumulated depreciation for:				
Buildings and improvements	2,252,486	116,225	-	2,368,711
Equipment, vehicles and furniture	871,742	130,577	-	1,002,319
Infrastructure	2,533,925	145,899	131,875	2,547,949
Total accumulated depreciation	5,658,153	392,701	131,875	5,918,979
Total capital assets being depreciated, net	8,638,412	106,815	67,945	8,677,282
Governmental activities capital assets, net	\$11,110,961	566,877	549,896	11,127,942

In 2015, the Town completed the sale of land and building to Harpswell Coastal Academy (HCA). The total consideration was \$150,000 with \$10,000 paid at closing. An additional \$40,000 was credited from lease payments. Harpswell Coastal Academy will pay the remainder to the Town in ten equal installments of \$10,000. The town received \$10,000 during 2016 which reduced its receivable from HCA.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

Fire and rescue vehicles with a cost of \$1,595,214 and accumulated depreciation of \$503,859 have been leased under 10 or 20 year agreements to one of the three independent fire and rescue departments serving the Town. The cost of insuring and maintaining the vehicles is borne by the departments.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$49,740
Public works	224,798
Protection and safety	99,040
Cultural and recreation	19,123

Total depreciation expense – governmental activities	\$ 392,701
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INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivables and payables balances at December 31, 2016 were as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
General Fund	\$ -	693,917
Special Revenue Funds:		
Restricted grants	8,050	-
Recreation	43,069	-
Capital Projects Fund:		
Emergency vehicles	507,262	-
Road projects	135,536	-
Totals	\$693,917	693,917

SHORT-TERM DEBT

Tax Anticipation Note

Under the authority of Title 30-A, Section 5771 of the Maine Revised Statutes, as amended, a resolution was adopted by the Board of Selectmen at their April 28, 2016 meeting authorizing the Treasurer to borrow \$3,100,000 to be due on or before December 31, 2016. On May 6, 2016, the \$3,100,000 was drawn. The outstanding principal and interest was paid before December 31, 2016. The total interest paid on this note was \$13,638. Since there is no beginning or ending balance at December 31, 2015 and 2016, it has not been included in the debt note which follows.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2016, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable	\$ 2,588,334	-	473,334	2,115,000	415,000
Capital lease obligation	24,000	-	6,000	18,000	6,000
Compensated absences payable	24,450	41,644	43,981	22,113	1,334
Governmental activity long-term liabilities	\$ 2,636,784	41,644	523,315	2,155,113	422,334

Bonds Payable

Bonds payable at December 31, 2016 are comprised of the following:

	<u>Issue date</u>	<u>Maturity date</u>	<u>Amount issued</u>	<u>Interest rate</u>	<u>Balance December 31, 2016</u>
Governmental activities:					
2008 Emergency vehicles	10/30/08	11/01/18	500,000	2.075-5.575%	100,000
2009 Ash Point road rehab	05/28/09	11/01/19	650,000	2.08-5.58%	195,000
2010 Emergency vehicles	10/28/10	11/01/20	600,000	2.00-5.50%	240,000
2011 Capital road project	05/26/11	11/01/21	800,000	2.12-5.62%	400,000
2013 Capital road project	05/23/13	11/01/23	1,000,000	.60-2.38%	700,000
2014 Capital road project	8/20/14	8/20/24	600,000	2.30%	480,000
Total bonds payable					\$2,115,000

During 2013, the Town entered into a capital lease to fund, in part, the purchase of certain media equipment. As of December 31, 2016, the balance of \$18,000 represents the principal obligation under the capital lease and will be repaid in three equal installments of \$6,000. Interest accrues at a rate per annum of 3.02% and is payable annually. The principal payments will be funded by annual grants to the Town by the holder of its cable franchise.

The annual requirements to amortize outstanding debt, including capital lease obligations, as of December 31, 2016 are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	415,000	42,463	457,463
2018	415,000	35,689	450,689
2019	365,000	28,104	393,104
2020	300,000	20,257	320,257
2021	240,000	13,903	253,903
2022-2024	380,000	15,320	395,320
Total	\$2,115,000	155,736	2,270,736

All governmental activities long-term debt requirements are paid by the general fund.

Debt authorized but unissued – The Town is authorized to borrow up to \$50,000 for failed septic system remediation.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

STATUTORY DEBT LIMIT

The laws of the State of Maine limit types of municipal borrowing to specific percentages of the State valuation of the municipality. At December 31, 2016, the Town was in compliance with these restrictions.

OVERLAPPING DEBT

The Town's proportionate share of debt of all local government units which provide services within the Town's boundaries, and which must be borne by properties in the Town is summarized as follows:

<u>Units</u>	<u>Net debt outstanding at December 31, 2016</u>	<u>Percentage applicable to the Town</u>	<u>Town's proportionate share of debt</u>
Cumberland County	\$37,802,500	4.54%	1,716,068
MSAD 75 / RSU 75	11,828,182	37.99%	4,493,526

The Town's proportionate share of the County and District debt is paid through annual assessments.

INTERFUND TRANSFERS

Individual fund transfers for the year ended December 31, 2016 were as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
General fund	\$ -	306,000
Special revenue funds:		
Recreation	31,000	-
Capital projects fund:		
Road projects	275,000	-
Emergency vehicles	-	-
Total capital projects fund	275,000	-
Total transfers	\$306,000	306,000

These transfers were budgeted transfers to fund certain activities.

RESTRICTED GRANTS

The Town classifies grant awards as restricted grants in the Town's special revenue fund. The December 31, 2016 fund balance of restricted grants consisted of the following awards:

<u>Grant Award</u>	<u>Balance beginning of year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance end of year</u>
Davis Conservation Fund	550	7,500	-	8,050
BI Library Hall - CDBG	-	5,612	5,612	-
Mitchell Field Waterfront Planning	-	4,125	4,125	-
Backpack Program - CDBG	-	1,443	1,443	-
Mitchell Field Community Garden	-	2,831	2,831	-
Pump out float	-	972	972	-
Total restricted grants	\$550	22,483	14,983	8,050

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

BUDGETED USE OF SURPLUS

During the year ended December 31, 2016, the Town budgeted to utilize prior year unassigned fund balance as a budgeted use of surplus. The amount consists of the following:

2015 carry forward balance	\$453,771
Use of surplus – current year:	
Boundary matter, map 22, lot 55	4,000
Reduction of tax commitment	470,000
Total	\$927,771

ASSIGNED FUND BALANCES

At December 31, 2016, assigned fund balance consisted of the following:

<u>Fund</u>	<u>Assigned balance</u>
Appropriation carryovers:	
Energy Conservation	\$ 1,431
Flood plain map revisions	2,961
Land purchase, map 42, lot 6	3,318
Mitchell Field water tower	17,437
Mitchell Field waterfront planning	17,911
Town facilities	13,073
Office equipment	2,500
Boat/motor replacement	38,243
Recycling	64,093
Vehicles & equipment replacement	59,690
Emergency communication equipment	21,521
Dry hydrant development	12,780
Land acquisition and property improvement	80,762
Pott's Point pier	5,500
Mitchell Field capital	66,876
Failed septic system reserve	22,649
Property tax assistance program	6,701
Cedar Beach legal funds	41,417
Conservation fund	5,000
Self-insurance reserve	1,594
Heating assistance reserve	29,980
Assessing records update	20,235
Plus contingency	<u>6,228</u>
Assigned fund balances subtotal	541,900
Assigned revenues:	
Heating assistance	14,493
Cable related technology	4,403
General Assistance – food	3
Mitchell Field boat ramp or bandstand	<u>1,800</u>
Total assigned fund balance – General Fund	\$562,599

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

NET POSITION

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bond and capital leases obligations used for this purpose and adding back any unspent proceeds. The Town's net investment in capital assets was calculated as follows at December 31, 2016:

Capital assets	\$ 17,046,921
Accumulated depreciation	(5,918,979)
Bonds payable and capital lease obligation	(2,133,000)
Unspent bond proceeds	0
Total net investment in capital assets	\$ 8,994,942

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

RISK MANAGEMENT

The Town is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Town either carries commercial insurance or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association for Workers' Compensation coverage. Based on these coverages, no known liabilities exist at December 31, 2016.

CONTINGENT LIABILITIES

Litigation - The Town is subject to certain legal proceedings which arise in the normal course of business. In the opinion of management, the Town has defensible positions in any/all pending cases. Further, any future liabilities are covered by insurance or will not materially affect the financial position of the Town.

State and Federal Grants – The Town participates in numerous state and federal programs which are governed by various rules and regulations imposed by the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any moneys received may be required. There are no material contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Mitchell Field Pier – During 2016, the Town paid to have the pump house, which had collapsed, removed from the pier. While the project was estimated to cost \$150,000, the actual cost was \$85,000. Moving forward, the Town is making plans to have the entire structure removed. Final cost estimates, which could be in the \$4 to \$5 million range, are being developed by a marine consultant. It is expected that Town Meeting voters will give consideration to funding this demolition project.

DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the International City Management Association Retirement Corporation.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

DEFERRED COMPENSATION PLAN, CONTINUED

The deferred compensation plan is available to all full and regular part time employees of the Town who work 20 hours or more per week on a regularly scheduled basis and who are not already participating in another plan. Under the plan, employees may elect to defer a portion of their salary and avoid paying income taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The Town's computed contribution to this plan for the years ended December 31, 2016, 2015 and 2014 was \$26,135, 23,248, and \$24,839, respectively. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN

Plan Description

Town employees contribute to the Maine Public Employees Retirement System (MainePERS), a cost-sharing multiple-employer defined benefit pension plan established by the Maine State Legislature. Title 5 of the Maine Revised Statutes Annotated assigns the authority to establish and amend benefit provisions to the Participating Local District (PLD) Consolidated Plan's advisory group, which reviews the terms of the plan and periodically makes recommendations to the Legislature to amend the terms. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained online at www.maineopers.org or by contacting the System at (800) 451-9800.

Benefits Provided

The Maine Public Employees Retirement System provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for employees of PLDs). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by contract with PLD employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

Contributions

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. The Town's plan members are part of the PLD's plan "AC" and are required to contribute 8.0% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The current rate is 9.5% of covered payroll. The contribution rates of plan members and the Town are established and may be amended by

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

the Maine Public Employee Retirement Systems advisory group. The Town's contribution to the MainePERS PLD Consolidated Plan for the year ended December 31, 2016 was \$10,443.

Effective March 14, 1998, this pension plan is no longer offered to new Town employees. Those employees already in the plan may continue under the same terms or may terminate and join the Town's deferred compensation plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the Town reported a liability of \$66,579 for its proportionate share of the net pension liabilities for the plan. The net pension liabilities were measured as of June 30, 2015 (the most recent period available), and the total pension liabilities used to calculate the net pension liabilities was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liabilities were based on a projection of the Town's long-term share of contributions to each pension plan relative to the projected contributions of all PLDs, actuarially determined. At June 30, 2015, the Town's proportion was 0.020869%, which was an increase of 0.000899% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016, the Town recognized net pension expense of \$5,442. At December 31, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PLD Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,688	\$ 8,551
Changes of assumptions	5,884	-
Net difference between projected and actual earnings on pension plan investments	20,549	25,579
Changes in proportion and differences between contributions and proportionate share of contributions	2,008	6,523
Contributions subsequent to the measurement date	9,899	-
Total	\$ 41,028	\$ 40,653

\$9,899 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

	PLD Plan
Year ended June 30:	
2017	\$ (5,526)
2018	(5,526)
2019	(3,609)
2020	5,137
2021	-
Thereafter	-

Actuarial Methods and Assumptions

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2015, using the following methods and assumptions applied to all periods included in the measurement:

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his or her expected future salary. The normal cost for each employee is the product of his or her pay and his or her normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the PLD Consolidated Plan is amortized on an open basis over a period of fifteen years.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2015 are as follows:

Investment Rate of Return - For the PLD Plan, 7.125% per annum, compounded annually.

Salary Increases, Merit and Inflation - Members of the consolidated plan for PLDs, 3.50% to 9.50% per year.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

Mortality Rates - For participating local districts, the RP2000 Tables projected forward to 2015 using Scale AA are used; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases - 2.55% for participating local districts.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as June 30, 2015 are summarized in the following table:

PLD Plan	
Asset Class	Long-term Expected Real Rate of Return
Target Allocation	
US equities	20% 5.2%
Non-US equities	20% 5.5%
Private equity	10% 7.6%
Real assets:	
Real Estate	10% 3.7%
Infrastructure	10% 4.0%
Hard assets	5% 4.8%
Fixed income	25% 0.7%

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (Maine PERS) - CONSOLIDATED RETIREMENT PENSION PLAN (CONTINUED)

The following table shows how the collective net pension liability/(asset) as of June 30, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the PLD Consolidated Plan.

	1%	Discount	1%
	Decrease	Rate	Increase
PLD Plan:			
Discount rate	6.125%	7.125%	8.125%
Town's proportionate share of the net pension liability	\$ 132,644	\$ 66,579	\$ 3,944

Changes in Net Pension Liability

Changes in net pension liability are recognized in pension expense for the year ended June 30, 2015 with the following exceptions:

Differences between Expected and Actual Experience

The difference between expected and actual experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2015, this was 4 years for the PLD Consolidated Plan.

Differences between Projected and Actual Investment Earnings

Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed five-year period.

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan.

Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions

Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

Pension Plan Fiduciary Net Position

Additional financial and actuarial information with respect to the Plan can be found in the MainePERS' 2015 Comprehensive Annual Financial Report available online at www.mainebers.org or by contacting the System at (800) 451-9800.

TOWN OF HARPSWELL, MAINE
Notes to Financial Statements, Continued

RETIREMENT PLAN – RECYCLING CENTER EMPLOYEES

The Town offers its recycling center employees a pension plan through the I.A.M. National Pension Fund.

The Town contributes on behalf of eligible employees of the recycling center who have worked during the plan year. There are no voluntary contributions by the employees allowed in this plan. The Town's expense under the plan for the years ended December 31, 2016, 2015 and 2014 was \$11,427, \$11,529 and \$11,198, respectively.

The funds contributed by the Town to the plan are held in trust by the I.A.M. National Pension Fund for the exclusive use of benefit participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

COMMITMENTS

At December 31, 2016, the Town was obligated under contracts for law enforcement, marine patrol, emergency dispatch, dedicated paramedic, a fire truck, planning services, and snow removal services in amounts totaling approximately \$977,500 for various periods through April 28, 2017.

GENERAL FUND

The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds.

TOWN OF HARPSWELL, MAINE
Comparative Balance Sheets
General Fund
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 4,556,580	4,642,455
Receivables:		
Taxes	264,253	332,522
Tax liens and acquired properties	52,347	61,556
Other	79,628	74,807
Prepaid items	17,482	16,650
Total assets	\$ 4,970,290	5,127,990
LIABILITIES		
Accounts payable and other liabilities	57,716	49,709
Unearned revenue - taxes paid in advance	16,724	4,645
Unearned revenue - other	18,875	7,875
Interfund payables:		
Special Revenue	51,119	51,484
Capital Projects	642,798	822,665
Total liabilities	787,232	936,378
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	170,000	270,000
Total deferred inflows of resources	170,000	270,000
FUND BALANCE		
Nonspendable:		
Prepaid Insurance	17,482	16,650
Committed:		
Assigned	562,599	453,771
Unassigned	3,432,977	3,451,191
Total fund balance	4,013,058	3,921,612
Total liabilities, deferred inflows of resources, and fund balance	\$ 4,970,290	5,127,990

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting)
For the year ended December 31, 2016

	Budgeted amounts		Actual	Variance positive (negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 11,625,025	11,625,025	11,637,419	12,394
Change in unavailable revenue	-	-	100,000	100,000
Interest and fees on property taxes	21,000	21,000	17,911	(3,089)
Excise taxes and registration fees	1,142,000	1,142,000	1,206,748	64,748
Total taxes	12,788,025	12,788,025	12,962,078	174,053
Intergovernmental:				
State revenue sharing	60,000	60,000	62,008	2,008
Local road assistance URIP	34,000	34,000	35,024	1,024
Homestead exemption and BETE	66,534	66,534	65,206	(1,328)
Tree growth	9,000	9,000	10,544	1,544
General assistance	6,000	6,000	8,024	2,024
Veterans exemption	3,000	3,000	3,280	280
Other	2,000	2,000	4,929	2,929
Total intergovernmental	180,534	180,534	189,015	8,481
Miscellaneous:				
Interest earned	8,000	8,000	8,756	756
Copies and records	3,500	3,500	3,203	(297)
Cable TV franchise fee	80,000	80,000	91,356	11,356
Cable technology & capital equipment	11,400	11,400	11,400	-
Licenses, fees and permits	194,000	194,000	208,410	14,410
Fines	-	-	1,960	1,960
Recycling center and disposal fees	155,500	155,500	176,216	20,716
Donations and gifts	10,000	10,000	25,493	15,493
Receipts from Harpswell Coastal Academy	10,000	10,000	10,000	-
Tower lease	21,000	21,000	21,815	815
Unclassified	4,000	4,000	6,671	2,671
Total miscellaneous	497,400	497,400	565,280	67,880
Total revenues	\$ 13,465,959	13,465,959	13,716,373	250,414

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting), Continued
For the year ended December 31, 2016

Article #	Account	Balances carried forward	Budgeted amounts		Actual	Variance positive (negative)	Balances carried forward
			Original	Final			
Expenditures:							
General government:							
10	Elected officials	\$ -	140,641	140,641	139,133	1,508	-
General administration:							
11	Administration	-	262,026	262,026	255,765	6,261	-
11	Public information	-	9,000	9,000	7,369	1,631	-
11	Risk management	-	56,393	56,393	52,550	3,843	-
11	Legal services	-	50,000	50,000	39,083	10,917	-
12	Memberships	-	15,622	15,622	15,574	48	-
13	Assessing	-	78,219	78,219	76,005	2,214	-
14	Tax collector's office	-	34,104	34,104	32,953	1,151	-
15	Town clerk's office	-	58,595	58,595	51,919	6,676	-
16	Treasurer	-	29,308	29,308	28,235	1,073	-
17	Code enforcement	-	131,652	131,652	131,561	91	-
18	Planning	-	72,132	72,132	70,453	1,679	-
27	Employee benefits	-	355,954	355,954	332,186	23,768	-
28	Boards and committees	-	5,110	5,110	4,990	120	-
Operations and maintenance:							
30	Municipal buildings and property	-	72,900	72,900	73,033	(133)	-
30	Old town house and commons	-	5,500	5,500	5,809	(309)	-
30	Town dock	-	4,280	4,280	4,033	247	-
30	Town lands and landings	-	12,000	12,000	11,836	164	-
30	Cedar/Robinhood Beach easement	-	2,500	2,500	1,770	730	-
29	Cemeteries	-	6,000	6,000	4,740	1,260	-
Total general government		-	1,401,936	1,401,936	1,338,997	62,939	-
Public works:							
39	Snow removal	-	446,324	446,324	414,831	31,493	-
39	Maintenance & signs	-	68,000	68,000	54,073	13,927	-
19	Recycling and transfer station	-	333,971	333,971	327,412	6,559	-
Total public works		-	848,295	848,295	796,316	51,979	-
Protection and safety:							
43,44	Emergency services	-	190,350	190,350	193,849	(3,499)	-
CF	Emergency Services planning	1,094	-	1,094	1,094	-	-
30	Emergency services building	-	6,000	6,000	3,438	2,562	-
42	Contracted paramedic services	-	277,564	277,564	277,560	4	-
45	Street lighting	-	29,000	29,000	26,033	2,967	-
21	Harbor management	-	46,603	46,603	43,653	2,950	-
20	Animal control	-	25,933	25,933	21,134	4,799	-
46,47	Law enforcement and communication	-	356,036	356,036	358,787	(2,751)	-
50	Marine consultant & conservation mng	-	15,000	15,000	6,361	8,639	-
48,49	Shellfish conservation contract & boat	-	189,396	189,396	188,279	1,117	-
Total protection and safety		1,094	1,135,882	1,136,976	1,120,188	16,788	-
Health and welfare:							
CF	Health and welfare restricted gift	300	-	300	297	3	3
CF	Gift Cards	-	-	-	285	(285)	-
51	Health and welfare	-	33,230	33,230	28,493	4,737	-
Total health and welfare		300	33,230	33,530	29,075	4,455	3
Cultural and recreation:							
52	Cultural and education programs	4,525	47,203	51,728	46,402	5,326	-
3	Curtis Memorial Library	-	135,345	135,345	135,345	-	-
53	Harpswell Community Broadcasting	-	63,750	63,750	63,750	-	-
22 & 23	Recreation - general and festival	-	39,206	39,206	37,248	1,958	-
Total cultural and recreation		4,525	285,504	290,029	282,745	7,284	-
1 Contingency transfers (\$6,748) approved by selectmen to cover emergency services, Mitchell Field, law enforcement							

TOWN OF HARPSWELL, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis of Accounting), Continued
For the year ended December 31, 2016

For the year ended December 31, 2016								
Article			Balances	Budgeted amounts			Variance	Balances
#	Account		carried forward	Original	Final	Actual	positive (negative)	carried forward
Expenditures, continued:								
CF, 57	A. Dennis Moore Recycling / Transfer St.	\$	37,893	30,000	67,893	3,800	64,093	64,093
Other capital / carryovers / reserves:								
CF	Dry hydrant development		12,780	-	12,780	-	12,780	12,780
CF	Land acquisition & Town property improvement		80,762	-	80,762	-	80,762	80,762
CF	Vehicle replacement & vehicle equipment		69,065	-	69,065	9,375	59,690	59,690
CF	Update of assessing records		20,235	-	20,235	-	20,235	20,235
CF	Emergency communication equipment		21,521	-	21,521	-	21,521	21,521
CF	Land acquisition map 42, lot 6		3,318	-	3,318	-	3,318	3,318
CF	Boat and motor replacement		38,243	-	38,243	-	38,243	38,243
57	T/O & Facilities Improvements		-	27,500	27,500	14,427	13,073	13,073
32	Harpswell Heritage Land Trust - Otter Brook		-	75,000	75,000	75,000	-	-
57	Office equipment		-	2,500	2,500	-	2,500	2,500
CF	Conservation fund		5,000	-	5,000	-	5,000	5,000
CF, 56	Cable related technology account		7,462	5,400	12,862	8,459	4,403	4,403
54	Public, educational & governmental equipment		-	6,000	6,000	6,000	-	-
CF	Self insurance reserve		1,650	-	1,650	56	1,594	1,594
CF	Heating assistance		36,151	-	36,151	6,171	29,980	44,473
CF	Failed septic systems		22,649	-	22,649	-	22,649	22,649
26	Public transportation		-	4,500	4,500	-	4,500	-
CF	Cedar Beach/Cedar Island legal funds		46,751	-	46,751	5,334	41,417	41,417
55	PEG Equipment warranty		-	6,400	6,400	6,400	-	-
CF	FEMA Consultant		2,961	-	2,961	-	2,961	2,961
CF	Energy Conservation		2,502	-	2,502	1,071	1,431	1,431
CF	Property tax assistance program		15,875	-	15,875	9,174	6,701	6,701
CF	Pott's Point Town dock system		5,500	-	5,500	-	5,500	5,500
CF, 38	Mitchell Field capital reserve		2,758	150,000	152,758	85,882	66,876	66,876
33	Mitchell Field - operations		-	11,300	11,300	11,798	(498)	-
CF	Mitchell Field - ramp or bandstand donation		1,800	-	1,800	-	1,800	1,800
35	Mitchell Field - water tower		-	22,000	22,000	4,563	17,437	17,437
38	Mitchell Field - waterfront planning		-	30,000	30,000	7,964	22,036	17,911
STM	Boundary matter, map 22, lot 55		-	4,000	4,000	4,000	-	-
Total capital and special projects			434,876	374,600	809,476	259,474	550,002	556,368
58	Debt service		-	550,000	550,000	539,384	10,616	-
CF	Contingency		12,976	-	12,976	-	12,976	6,228
Total budgeted expenditures			453,771	4,629,447	5,083,218	4,366,179	717,039	562,599
Other expenditures:								
Educational appropriation			-	7,697,700	7,697,700	7,697,700	-	-
County tax			-	1,254,940	1,254,940	1,254,940	-	-
Overlay / abatements			-	51,872	51,872	108	51,764	-
Total other expenditures			-	9,004,512	9,004,512	8,952,748	51,764	-
Excess (deficiency) of revenues over								
(under) expenditures			(453,771)	(168,000)	(621,771)	397,446	1,019,217	(562,599)
Other financing sources (uses):								
41	Transfer to Capital Projects - roads		-	(275,000)	(275,000)	(275,000)	-	-
25	Transfer to Recreation fund - Trufant-Summerton		-	(15,000)	(15,000)	(15,000)	-	-
24	Transfer to Recreation fund - programs		-	(16,000)	(16,000)	(16,000)	-	-
STM	Use of unassigned fund balance - Mackerel Cove		-	4,000	4,000	-	(4,000)	-
67	Use of unassigned fund balance - budget		-	470,000	470,000	-	(470,000)	-
59	Use of carryforward balances		453,771	-	453,771	-	(453,771)	-
Total other financing sources (uses)			453,771	168,000	621,771	(306,000)	(927,771)	-
Net change in fund balance			-	-	-	91,446	91,446	(562,599)
Fund balance, beginning of year						3,921,612		
Fund balance, end of year					\$	4,013,058		

1 Contingency transfers (\$6,748) approved by selectmen to cover emergency services, Mitchell Field, law enforcement

2 Balances carried forward include 2016 revenues received for these purposes

3 Revenue received directly applied to capital lease payment

OTHER NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR SPECIAL REVENUE FUNDS

Special revenue funds account for specific resources, the expenditure of which are restricted by law or administrative action for particular purposes.

Special revenue funds are established for the following purposes:

Restricted Grants

The purpose of this fund is to segregate state, federal and private awards whose purpose is restricted by the agency providing the funds.

Recreation

To account for various recreation fees and related expenditures.

NONMAJOR CAPITAL PROJECT FUNDS

Capital projects funds are established to account for resources obtained and expended for the acquisition of major capital facilities and projects.

The Town's individual capital project funds were established for the following purposes:

Emergency Vehicles

To accumulate funds in a dedicated interest bearing account to ultimately purchase emergency vehicles.

TOWN OF HARPSWELL, MAINE
Other Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2016

	Special Revenues		Capital Projects	Totals
	Restricted Grants	Recreation	Emergency Vehicles	
ASSETS				
Interfund receivables	\$ 8,050	43,069	507,262	558,381
Total assets	\$ 8,050	43,069	507,262	558,381
Fund balances:				
Restricted:				
Capital projects and grants	8,050	-	507,262	515,312
Assigned:				
Recreation	-	43,069	-	43,069
Total fund balances	\$ 8,050	43,069	507,262	558,381

TOWN OF HARPSWELL, MAINE
Other Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended December 31, 2016

	<u>Special Revenues</u>		<u>Capital Projects</u>	<u>Totals</u>
	<u>Restricted Grants</u>	<u>Recreation</u>	<u>Emergency Vehicles</u>	
Revenues:				
Grants	\$ 22,483	-	-	22,483
Interest earned	-	-	1,261	1,261
Bandstand donations	-	7,846	-	7,846
Charges for services	-	42,532	-	42,532
Total revenues	22,483	50,378	1,261	74,122
Expenditures:				
For specified purpose	14,983	53,606	-	68,589
Bandstand	-	8,020	-	8,020
Capital outlay	-	27,617	-	27,617
Total expenditures	14,983	89,243	-	104,226
Excess (deficiency) of revenues over (under) expenditures	- 7,500	(38,865)	1,261	(30,104)
Other financing sources:				
Transfers from general fund	-	31,000	-	31,000
Total other financing sources	-	31,000	-	31,000
Net change in fund balances	7,500	(7,865)	1,261	896
Fund balances, beginning of year	550	50,934	506,001	557,485
Fund balances, end of year	\$ 8,050	43,069	507,262	558,381

SCHEDULE

TOWN OF HARPSWELL, MAINE
Schedule of Taxes and Liens Receivable
For the year ended December 31, 2016

Year	Balance at 12/31/15	2016 Commitment	Supplemental Taxes	Collections	Abatements	Balance at 12/31/16
pre 2002	\$ -	-	-	-	-	-
2005	147	-	-	(56)	-	91
2006	152	-	-	-	-	152
2007	77	-	-	-	-	77
2008	82	-	-	-	-	82
2009	165	-	-	-	-	165
2010	177	-	-	-	-	177
2011	198	-	-	-	-	198
2012	396	-	-	-	-	396
2013	788	-	-	-	-	788
2014	59,374	-	-	(58,370)	-	1,004
2015	332,522	-	-	(283,305)	-	49,217
2016	-	11,625,025	12,394	(11,373,058)	(108)	264,253
	394,078	11,625,025	12,394	(11,714,789)	(108)	316,600
						Taxes receivable 264,253
						Tax liens and acquired properties 52,347
						Total \$ 316,600